

**STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769**

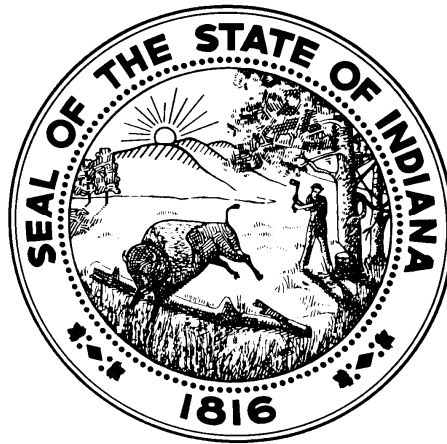
EXAMINATION REPORT

OF

CITY OF FRANKFORT

CLINTON COUNTY, INDIANA

January 1, 2007 to December 31, 2007



FILED
12/08/2008

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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Marilyn Chittick Judith Suter	01-01-04 to 12-31-07 01-01-08 to 12-31-11
Mayor	Donald Stock Chris Pippenger	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Board of Public Works	Donald Stock Chris Pippenger	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Common Council	Donald Stock Chris Pippenger	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Utility Service Board	Fred Fladd Joe Root Jeffrey P. Little	11-01-06 to 10-31-07 11-01-07 to 10-31-08 11-01-08 to 10-31-09
Superintendent of Water Utility	Wesley Hyden	01-01-07 to 12-31-08
Superintendent of Wastewater Utility Wastewater Treatment Wastewater Maintenance Interim Wastewater Maintenance	Dennis Shirar Don Bogard Edward Lafler	01-01-07 to 12-31-08 01-01-07 to 10-01-07 10-02-07 to 12-31-08
Superintendent of Electric Utility	Steve Miller	01-01-07 to 12-31-08
Utility Office Manager	Susan O'Brien	01-01-07 to 12-31-08



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

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INDEPENDENT ACCOUNTANT'S REPORT

TO: THE OFFICIALS OF THE CITY OF FRANKFORT, CLINTON COUNTY, INDIANA

We have examined the financial information presented herein of the City of Frankfort (City), for the period of January 1, 2007 to December 31, 2007. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the City for the year ended December 31, 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Long-Term Debt, as listed in the Table of Contents, is presented for additional analysis and is not a required part of the basic financial information. The debt schedule has not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on it.

STATE BOARD OF ACCOUNTS

October 15, 2008

CITY OF FRANKFORT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES
As Of And For The Year Ended December 31, 2007

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
Governmental Funds:				
General	\$ 415,169	\$ 8,249,504	\$ 8,440,553	\$ 224,120
Motor Vehicle Highway	220,367	893,470	1,021,502	92,335
Local Road and Street	99,171	151,667	100,000	150,838
Law Enforcement Continuing Education	31,723	12,589	11,290	33,022
Emergency Medical Services	683	358,221	270,389	88,515
Hazardous Materials	2,753	3,081	2,982	2,852
User Fee	118,852	285,028	295,537	108,343
Police Forfeiture	43,024	15,479	30,317	28,186
Special Donation	64,482	139,522	124,141	79,863
Criminal Justice Grant	2,512	21,125	23,224	413
Flower	222	882	919	185
Petting Zoo Donations	581	1,395	1,606	370
TPA Park Festival	24,426	14,132	28,093	10,465
Softball League	1,359	5,155	6,495	19
Unsafe Building	12,490	-	69	12,421
Riverboat	10,222	105,067	108,674	6,615
County Economic Development Income Tax	472,327	264,661	68,261	668,727
Chipper Grant	2,092	-	-	2,092
Rainy Day	-	171,756	-	171,756
911 Operator	12,011	48,383	58,055	2,339
Levy Excess	-	121,232	-	121,232
Homeland Security Grant	-	36,015	-	36,015
NHC Custodian	-	5,928	5,928	-
City Court	1,480	39,335	40,285	530
Storm Damage Refund	-	40,949	40,949	-
Deferral Program	-	675	-	675
Sidewalks and Curbs	-	49,055	35,267	13,788
Cumulative Building and Fire Fighting Equipment	308,945	51,275	14,502	345,718
Cumulative Capital Improvement	182,363	61,355	2,000	241,718
Clerk's Equipment Fund	3,043	1,027	2,404	1,666
Washington Street Project	-	40,033	40,033	-
Grass Liens	-	13,600	1,167	12,433
Proprietary Funds:				
Water Utility - Operating	493,752	2,183,401	2,199,342	477,811
Water Utility - Depreciation	873,187	72,288	263,257	682,218
Water Utility - Customer Deposit	16,078	5,775	5,900	15,953
Water Utility - Construction	393,519	119,539	397,224	115,834
Wastewater Utility - Operating	363,052	3,089,762	3,142,685	310,129
Wastewater Utility - Depreciation	272,383	171,414	219,722	224,075
Wastewater Utility - Customer Deposit	40,439	15,515	15,605	40,349
Wastewater Utility - Construction	265,241	613,769	607,951	271,059
Electric Utility - Operating	1,667,443	22,451,386	23,591,184	527,645
Electric Utility - Depreciation	1,953,106	61,705	1,327,048	687,763
Electric Utility - Customer Deposit	179,872	71,470	65,928	185,414
Electric Utility - Construction	2,700,552	109,177	628,320	2,181,409
Storm Water Utility - Operating	218,514	791,429	529,893	480,050
Utility Service Board	103,337	962,297	1,014,181	51,453
Utility Auditor Operating	4,403	61,112	59,553	5,962
Billing Office Operating	79,115	614,617	562,408	131,324
Utility Credit Card	46,638	248,459	1,361	293,736
Utility Credit Card Fees	228	2,379	2,607	-
Cash Reserve	-	800,000	800,000	-
Health Insurance	171,072	-	171,072	-
Fiduciary Funds:				
Police Officers' Pension	351,737	427,566	457,880	321,423
Firefighters' Pension	387,380	556,236	703,944	239,672
Utility Retirement Pension	3,832,772	399,082	108,831	4,123,023
Payroll	98,990	10,056,315	10,061,762	93,543
Fred Simms Scholarship	5,081	28	5,109	-
Sallie Byers Scholarship	1,524	9	1,533	-
Municipal Pool Escrow	12,668	258	-	12,926
County Docket Fees	-	3,284	3,284	-
Special Insurance	2,027	61,843	26,427	37,443
Totals	\$ 16,564,407	\$ 55,151,711	\$ 57,748,653	\$ 13,967,465

The accompanying notes are an integral part of the financial information.

CITY OF FRANKFORT
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, health and social services, culture and recreation, general administrative services, electric, water, wastewater, and storm water utilities.

Note 2. Fund Accounting

The City uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the City in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

CITY OF FRANKFORT
NOTES TO FINANCIAL INFORMATION
(Continued)

Note 6. Pension Plan

Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system, and give the Town authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

Note 7. Payments on behalf of Frankfort Airport Authority

The City of Frankfort paid, on behalf of the Frankfort Airport Authority, the loan payments due January and July 2007. The loan payments made on behalf of the Authority for 2006 and 2007 totaled \$111,922.29. The City also paid for other expenses of the Authority bringing the total of payments for the Authority to \$150,425.84. A formal repayment schedule has not been approved by the Council.

Note 8. Subsequent Event

Beginning in 2009, the State Pension Relief Fund shall pay to each unit of local government with Pre-1977 Local Police and Fire Fighter Pension obligations, the total amount of pension, disability, and survivor benefit payments. The Pre-1977 funds include the 1925 Police Pension Fund, the 1937 Firefighters' Fund, and the 1953 Police Pension Fund. For property taxes due and payable after December 31, 2008, the Indiana Department of Local Government Finance shall reduce the maximum permissible property tax levy of any civil taxing unit and special service district by the amount of the payment to be made in 2009 by the State for the obligations.

CITY OF FRANKFORT
SUPPLEMENTARY INFORMATION
SCHEDULE OF LONG-TERM DEBT
December 31, 2007

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital leases:		
Surge Tank - Park Pool	\$ 43,564	\$ 16,024
Main Pool Filter - Park Pool	42,570	15,655
Fire Truck	801,553	120,285
Patching Trailer	32,645	-
Garbage Truck Chassis	37,171	-
Total governmental activities debt	<u>\$ 957,503</u>	<u>\$ 151,964</u>

CITY OF FRANKFORT EXAMINATION RESULTS AND COMMENTS

CONDITION OF RECORDS

Financial records presented for examination were incomplete and not reflective of the activity of the City. The records presented did not include all checks that were written for the examination period. The amount not posted to the records totaled \$26,142 at December 31, 2007. The records also included a disbursement of \$4,570 posted in October 2007, but the corresponding check was not written until February 2008. At December 31, 2007, the reconciled bank balance was \$185.01 more than the balance reflected on the City's financial records.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

BANK ACCOUNT RECONCILIATIONS (Utilities)

The Utilities accepted credit cards for payment of utility bills and deposited these amounts in a separate bank account. Their normal procedure is to reconcile the collections by utility and then determine the credit card fees charged. After these fees have been determined, the billing office transfers funds to cover the credit card fees assessed against the bank account from its budget to the credit card bank account. The full billed amount collected for each utility through credit cards is then transferred to the operating bank account of each utility. As of September 2008, these procedures had not been completed for December, 2007 or the first eight months of 2008. Also, the depository reconciliations of the credit card payments made to the Utilities and bank account balances were not presented for examination.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

OVERDRAWN FUND BALANCES

The following funds were overdrawn at various times during the year 2007 with the largest deficit amount listed as follows:

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

<u>Fund</u>	<u>Amount</u>
General	\$ 4,400,981
Motor Vehicle Highway	40,207
Police Officers' Pension	76,059
Firefighters' Pension	88,345
Criminal Justice Grant	4,531
911 Operator	16,586
County Docket Fees	61
Special Insurance	3,571
Petting Zoo Donations	105
NHc Custodian	7,068
Softball League	355
Water Utility Construction	27,134

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

APPROPRIATIONS

The records presented for examination indicated the following expenditures in excess of budgeted appropriations:

<u>Fund</u>	<u>Year</u>	<u>Excess Amount Expended</u>
Motor Vehicle Highway	2007	\$ 76,685

Indiana Code 6-1.1-18-4 states in part: ". . . the proper officers of a political subdivision shall appropriate funds in such a manner that the expenditures for a year do not exceed its budget for that year as finally determined under this article."

DEPOSITS

In numerous instances, City Court receipts were deposited later than the next business day. Deposits were held as long as 12 days before depositing. Of the 25 deposits reviewed, only 2 were considered timely.

In addition, collections for shelter rentals of the Park Department were not remitted timely. The receipts were remitted twice a month to the Clerk-Treasurer for deposit.

Indiana Code 5-13-6-1(d) states: "A city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and (2) approved as depositories of state funds."

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

PREScribed FORMS

The following prescribed or approved forms were not in use:

General Form 102-Register of Trust Funds - this form was not used.

State Court Administration Form - Chronological Case Summaries (CCS) -
This form is not being used.

The following prescribed or approved forms were not used in the manner prescribed:

214CT -City Court Receipt - this form was used but not completed.
The receipts do not state the distribution of the receipts collected.

213CT - City/Town Court Cash Book - an unapproved form is being used in place of
the City/Town Court Cash Book.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

COURT COSTS

The City Court of Frankfort assessed judgments for ordinance violations and failed to assess the appropriate court costs for cases heard by the City Court Judge. For 2007, all ordinance violations were assessed only court costs of \$17.50. Officials failed to assess the state costs of \$38.50 and the county costs of \$14. In addition, the Clerk only collected the additional fees required for the law enforcement continuing education fee and document storage fee. Officials failed to collect the highway work zone fee, jury fee, automated recordkeeping fee, public defense fee, judicial insurance adjustment fee, judicial salaries fee, court administrative fee and DNA sample processing fee.

The City of Frankfort has established an Ordinance Violations Bureau. If the person charged with an ordinance violation admitted the violation to the violations clerk, they were assessed city court costs and additional fees for law enforcement continuing education fees and document storage fees in addition to the city fine. The City fine collected on each violation was \$2.50 which was not in compliance with the penalties set forth in the ordinance.

The City Court of Frankfort assessed judgments for infractions and failed to assess the proper fee for the judicial insurance adjustment by charging \$3 instead of the prescribed \$1 fee for each violation. In addition, the public defense administration fee, which is prescribed at \$3, was assessed at \$1 for each violation.

The City Court of Frankfort assessed judgments for infractions involving unregistered vehicles and failed to assess a judgment equal to the amount of excise tax due.

Indiana Code 33-37-4-2 (a) states in part: ". . . for each action that results in a judgment: (1) for a violation constituting an infraction; or (2) for a violation of an ordinance of a municipal corporation (as defined in IC 36-1-2-10); the clerk shall collect from the defendant an infraction or ordinance violation costs fee of seventy dollars (\$70)."

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Indiana Code 33-37-4-2 (b) states in part: "In addition to the infraction or ordinance violation costs fee collected under this section, the clerk shall collect from the defendant the following fees, if they are required under IC 33-37-5: (1) A document fee . . . (2) An alcohol and drug services program user fee . . . (3) A law enforcement continuing education program fee . . . (4) An alcohol and drug counter-measures fee . . . (5) A highway work zone fee . . . (6) A deferred prosecution fee... (7) A jury fee . . . (8) A document storage fee . . . (9) An automated record keeping fee . . . (10) A late payment fee . . . (11) A public defense administration fee . . . (12) A judicial insurance adjustment fee . . . (13) A judicial salaries fee . . . (14) A court administration fee . . . (15) A DNA sample processing fee . . ."

Indiana Code 33-36-2-3 states: "The violations clerk may accept: (1) written appearances; (2) waivers of trial; (3) admissions of violations; and (4) payment of civil penalties up to a specific dollar amount set forth in an ordinance adopted by the legislative body, but not more than two hundred fifty dollars (\$250); in ordinance violation cases, subject to the schedule prescribed under IC 33-36-3 by the legislative body."

Indiana Code 33-36-3-6 (a) states: "An ordinance violation admitted under this article does not constitute a judgment for the purposes of IC 33-37. An ordinance violation costs fee may not be collected from the defendant under IC 33-37-4."

Indiana Code 9-18-2-41(a) states in part: "(a) In addition to: (1) the penalty described under section 40 of this chapter; and (2) any judgment assessed under IC 34-28-5 . . . a person who violates section 1 of this chapter shall be assessed a judgment equal to the amount of excise tax due under IC 6-6-5 or IC 6-6-5.5 on the vehicle involved in the violation."

CONDITION OF RECORDS (Court)

The following deficiencies, relating to the recordkeeping, were present during our period of examination:

- (1) Record balances were not reconciled to depository balances during the audit period.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

- (2) There were a considerable number of posting errors. These errors included deposits not receipted, checks and receipts not recorded in the proper amounts, and nonsufficient funds checks incorrectly posted.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

- (3) Some transactions were recorded as "negative" receipts and disbursements.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

SEAT BELT AND CERTAIN UNLAWFUL PARKING VIOLATIONS

The City collected late fees for seatbelt violations. In addition, they assessed court costs and other fees as a local parking ordinance violation for illegally parking in a space reserved for a person with a physical disability. The City collected \$500 in late charges for seatbelt violations and \$103 for unlawful parking violations under a local home rule ordinance.

For each seatbelt violation under IC 9-19-10-2, IC 9-19-11-2, or IC 9-19-11-3, a person commits a Class D Infraction. For each violation of IC 5-16-9-5, Parking for the Physically Handicapped law, a person commits a Class D Infraction. IC 34-28-5-4 allows a court to enter a judgment of up to twenty-five dollars (\$25) for each Class D Infraction. IC 5-16-9-5 requires a civil judgment of not less than fifty dollars (\$50) to be imposed. All seatbelt violation cases would be considered moving traffic violations under IC 9-30-3-14 and would be required to be heard in a circuit, superior, county, city or town court or traffic violations bureau designated by these courts. Furthermore, IC 34-28-5-5(c) states that all funds collected as judgments for violations of statutes defining infractions shall be deposited in the state general fund. Additionally, in the Home Rule Law IC 36-1-3-8 states that a unit of government does not have the power to prescribe a penalty by local ordinance for conduct constituting an infraction. (Cities and Towns Bulletin and Uniform Compliance Guidelines, September 2002)

In each action (except a seat belt violation or a violation for unlawful parking in a space reserved for a person with a physical disability) in which a defendant . . . the court may adopt a local ordinance to impose a late payment fee on such defendants. (Accounting and Uniform Compliance Guidelines Manual for City and Town Courts, Chapter 3)

BUY MONEY

The City has appropriated money to be used as buy money or to pay informants without establishing an ordinance under Home Rule to allow these expenditures.

The following procedures should be followed if a municipality wishes to obtain an appropriation and make expenditures for buy money or payments to informants: 1) Under IC 36-1-3 an ordinance should be passed allowing this type of program and associated expenditures; 2) An appropriation for such purpose must be obtained in the manner authorized by state statutes; 3) Petty cash fund procedures are to be followed as authorized by IC 36-1-8-3; and 4) A minimum documentation procedure must be followed, similar to either: a) "Guidelines for the Expenditure of Confidential Funds", published by the U.S. Department of Criminal Justice. b) "Guidelines for Obtaining and Accounting for Confidential Funds Used in Support of Criminal Investigations, by the Indiana State Police Department." (Cities and Towns Bulletin, September 2004)

CREDIT CARDS

The City of Frankfort is using credit cards to purchase items without an approved credit card policy. The credit card payments reviewed showed payments made on the basis of the statement only. Purchases were made that appear to have bypassed the accounting system.

The State Board of Accounts will not take exception to the use of credit cards by a governmental unit provided the following criteria are observed:

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

- (1) The governing board must authorize credit card use through an ordinance or resolution, which has been approved in the minutes.
- (2) Issuance and use should be handled by an official or employee designated by the Board.
- (3) The purposes for which the credit card may be used must be specifically stated in the ordinance or resolution.
- (4) When the purpose for which the credit card has been issued has been accomplished, the card should be returned to the custody of the responsible person.
- (5) The designated responsible official or employee should maintain an accounting system or log which would include the names of individuals requesting usage of the cards, their position, estimated amounts to be charged, fund and account numbers to be charged, date the card is issued and returned, etc.
- (6) Credit cards should not be used to bypass the accounting system. One reason that purchase orders are issued is to provide the fiscal officer with the means to encumber and track appropriations to provide the governing board and other officials with timely and accurate accounting information and monitoring of the accounting system.
- (7) Payment should not be made on the basis of a statement or a credit card slip only. Procedures for payments should be no different than for any other claim. Supporting documents such as paid bills and receipts must be available. Additionally, any interest or penalty incurred due to late filing or furnishing of documentation by an officer or employee should be the responsibility of that officer or employee.
- (8) If properly authorized, an annual fee may be paid.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

PETTY CASH FUND

Some petty cash fund transactions were not supported by receipts or other documentation. In addition, the petty cash fund is being used to reimburse employee expenses for travel and other purchases, bypassing the established processing procedures.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Indiana Code 36-1-8-3 states in part: "(a) The fiscal body of a political subdivision may establish a petty cash fund for any of its offices in a like manner to that prescribed by Section 2 of this chapter. (b) The custodian of a petty cash fund shall use it to pay small or emergency items of operating expense. A receipt shall be taken for each expenditure made from the fund."

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

TRAVEL CLAIMS

In some instances employees were reimbursed for travel expenses without original receipts being attached to the claim. Form 101 "Mileage Claim" was not being used to claim reimbursement for mileage.

Supporting documentation such as receipts, canceled checks, tickets, invoices, bills, contracts, and other public records must be available for audit to provide supporting information for the validity and accountability of monies disbursed. Payments without supporting documentation may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ERRORS ON ACCOUNTS PAYABLE VOUCHERS

The following deficiencies were noted on claims during the examination period:

- (1) Claims were not adequately itemized.
- (2) Claims or invoices were not accompanied by evidence in support of the receipt of goods or services.

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services."

"(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

CUSTOMER DEPOSIT REGISTER

The detailed customer deposit register does not reconcile with the customer deposit control amount recorded on the general ledger for each Utility. The detail registers were \$263.89, \$32.00 and \$40.00 less than the customer deposit control amounts for the Electric, Water and Wastewater Utilities, respectively.

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

At all times, the manual and computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

FUND SOURCES AND USES

The City has a Donation Fund that includes amounts received from several sources. This fund includes amounts that have been donated to the City or a department of the City and do not appear to be restricted in any manner by the donor.

The following is a brief list of procedures to be followed by city and town officials in receiving and accounting for monetary contributions, donations, or gifts received by the municipality. (Since the term "donation" in this instance is synonymous to "contribution" and "gift" that term will be used.)

1. Unrestricted donations are defined as those to which the donor has not attached terms, conditions, or purposes.
2. Restricted donations are defined as those to which the donor has attached terms, conditions, or purposes.
3. The governing body of the unit has the option and responsibility to either accept or reject, in writing, any proposed donation.
4. If the donation is a restricted donation, the board must agree, in writing, to the terms, conditions, or purposes attached to the proposed donation.
5. Restricted donations can only be accepted for purposes within the scope of general statutory authority.
6. Income or revenues in the form of tax distributions, tax receipts, fees, rentals, contractual payments, etc., are not to be considered donations.
7. Donations which are accepted must be handled in one of the two following methods:
 - A. Unrestricted donations shall be receipted into the applicable operating fund of the unit (i.e. city or town operating (general) fund; cemetery operating fund, park and recreation operating fund, airport operating fund, etc.). Expenditure of such donated revenue from the operating fund shall be made only after an appropriation has been provided for the purpose of the expenditure. Claims must be filed and approved in the regular legal manner.
 - B. A restricted donation shall be placed into a separate fund after such fund is established by the legislative body of the unit. Any appropriate descriptive name may be given the donation fund. The donation can be expended only for the purpose and under the terms and conditions agreed to on accepting the donation.

CITY OF FRANKFORT
EXAMINATION RESULTS AND COMMENTS
(Continued)

Pursuant to Attorney General Official Opinion No. 68 of 1961, no further appropriation is required for expenditure of a restricted donation for the designated purpose. Even though no further appropriation is required, claims must be filed and approved in the regular legal manner before disbursements can be made from the fund.

8. If the volume of restricted donations justifies it, a "control" fund may be established for all restricted donations. Separate, individual accounts would then be established to account for each restricted donation or each type of restricted donation. The total activities of the separate accounts - receipts disbursements, balances - could be reflected on the control fund.
9. Income from investments of restricted donations should be receipted into the same fund in which the principal of the donation has been receipted, provided it is to be used for the same purpose as the principal. However, if under the terms of the trust, the principal must be held in trust in perpetuity and only the income used by the governmental unit, there should be two funds established. One fund should be designated as "trust interest." In this situation, expenditures would only be permitted from the Trust Interest (Income) Fund."
10. The municipality's fiscal officer should be the custodian of the unit's funds and securities.

(Cities and Town Bulletins, June 2006)

TRANSFERS FROM UTILITY

The Clerk-Treasurer transferred \$2,200,000 from the Electric Utility to the General Fund as a temporary loan without the approval from the Common Council or the Utility Service Board.

Indiana Code 8-1.5-3-12 states in part: "(a) A municipality may, by ordinance of its legislative body, borrow money from a utility owned by the municipality for current purposes . . ."

CITY OF FRANKFORT
EXIT CONFERENCE

The contents of this report were discussed on October 28, 2008, with Marilyn Chittick, former Clerk-Treasurer.

The contents of this report were discussed on October 28, 2008, with Eric Woods, Councilman; John O'Brien, Councilman; Chris Pippenger, Mayor; and Judith Suter, Clerk-Treasurer.

The contents of this report were discussed on October 28, 2008, with Susan O'Brien, Utility Office Manager; Dirk Unroe, Utility Service Board Member; Jeffrey P. Little, President of the Utility Service Board; Chris Pippenger, Mayor; and Judith Suter, Clerk-Treasurer.